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What of CHINA and JAPAN ?

By George Woodruff

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Because of the great interest that is now felt in Far Eastern matters and at the request of many members, who wish to retain Mr. Woodruff's letters from the Orient in some convenient form, the Illinois Chamber of Commerce has had a limited number of these books printed for private distribution. Some of the matter contained herein has already been published in The Illinois Journal of Commerce and some has been sent out to members in leaflet form. Now, however, for the first time, all of this material has been condensed into a book that tells in graphic style of the political problems and ambitions of the two great nations of the Far East, as well as of their financial resources and commercial opportunities.

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CHAPTER I

The Form of Government in Japan

AMERICAN business men are beginning to take a very great interest in all foreign trade matters and the members of the Illinois Chamber of Commerce may consequently be interested in a general review of the present political and business conditions in the Far East.

First of all, it is perhaps quite important that consideration be given to the form of government in Japan which seems to be very much like the German form of government before the war.

The Mikado

The Mikado is supposed to be a direct descendent of the Gods, and the people of Japan believe that he is divine. Pictures of the Mikado are in all of the houses, and a majority of the people bow down before these pictures. The important religions are Shintoism and Buddhism and both teach the divinity of the Mikado. The people have been taught for generations to be loyal to the Mikado, and there is probably no country on earth in which the people are so solidly loyal to their ruler and their government.

The Mikado exercises the supreme power, and his will is practically law. However he is advised in important matters by the Privy Council.

The Privy Council and Elder Statesmen

The Privy Council consists of thirty-nine members, and its functions are purely advisory. This Privy Council is of course hand-picked, and it represents the ruling classes, and the vested interests, together with the militarists. Inside of this Privy Council there developed a clique of seven men, called the Elder Statesmen, only three of whom are now active. These Elder Statesmen actually run Japan. Their appointment is not provided for in any of the laws of Japan, but nevertheless they are the real power and the Mikado and everybody else usually follows their recommendations. They are militarists and they control the army and navy. They sometimes use their influence against the Cabinet and Diet much the same as the militarists used to do in Germany.

The Cabinet

The Cabinet is provided for in the constitution and the direction of the country's affairs is supposed to be largely in its hands. However the Prime

Minister is usually recommended by the Elder Statesmen, and after appointment, he forms the Cabinet. The Cabinet is not responsible to the Diet but is responsible to the Mikado, just the same as the German Cabinet used to be responsible to the Kaiser.

The Diet

The Diet consists of two houses—a House of Peers and a House of Representatives. The Diet has power to pass laws but these laws do not go into effect unless and until they are approved and promulgated by the Mikado. Under certain circumstances the Mikado can proclaim laws without consulting the Diet.

The House of Peers is composed of members of the royal family and nobility, representatives of the army and navy and a number of manufacturers, financiers and business men representing the largest tax payers.

The House of Representatives is elected by the people, but only those male Japanese at least twenty-five years of age who pay a direct tax of ten yen ($5.00) can vote. As the people are poor there are not very many men who pay this tax, and consequently out of a total population of some seventy millions in Japan and its dependencies less than three million can vote. Furthermore many of these are prevented from voting by bribery, and dishonest election methods are said to be quite customary.

A writer has recently said that "the model of administration is not the British Parliament or the American Congress but the United States Steel Corporation, and the Standard Oil Co." Japan is apparently owned and run by less than two hundred thousand men, consisting of the rulers, the militarists and "the interests."

The people seem to be pretty well satisfied with this form of government and at the present time it would seem that a monarchy is better suited to the needs of oriental peoples than a republic. However there is a considerable liberal movement in the country and the advocates of real constitutional government will some day overcome the Elder Statesmen and the militarists. The struggle between these two forces is similiar to the struggle that went on in Germany before the war.

In international affairs the Japanese form of government gives to Japan the same very great advantages that the old German form of government gave to Germany. Japan is able to adopt international policies promptly and secretly and to strike swiftly and effectively.

CHAPTER II

The Expansion of Japan

JAPAN has a very large population and the Japanese Islands do not furnish sufficient room for all these people, particularly as the population is increasing at the rate of about 700,000 per year. Between five and six million farmers cultivate the land but their average farms are less than three acres in size and it is necessary for each farmer's family to carry on some form of home industry in order to make both ends meet. Furthermore, industrial conditions are very bad and the wages paid are very small so that the masses of the people are very poor and the scale of living is of course very low.

Japan, like Germany, felt that the best way to take care of her increasing population was to expand her territory and send colonists out of Japan. She felt that the expansion of territory was particularly necessary because her colonists were not welcome in the United States, Canada and Australia.

After Japan had expanded her territory somewhat in the north and in the south she learned that her people did not care to colonize land located in a cold climate or in the tropics. The Japanese thrive best in a warm, temperate climate and consequently the rulers of Japan changed their plans somewhat and decided that their increasing population should be supported by the development of industrialism the same as had been done in England. Japan has consequently continued to expand her territory with the idea of merely governing her dependencies, obtaining raw materials therefrom and developing trade therein. Under this plan officials, traders, business men and a comparatively small number of colonists have gone into the countries that have been taken over by Japan, and have developed a demand for Japanese goods that has made possible the more rapid growth of industry at home.

The Chinese War

For many years Japan and China both endeavored to control Korea, and finally in 1895 Japan picked a quarrel with China and declared war. This war was a short one because Japan was thoroughly prepared and China was not. As a result of the war the influence of Japan was recognized in Korea, the island of Formosa was ceded to her and she was given territory at Port Arthur in southern Manchuria. Russia, France and Germany protested against Japan receiving Port Arthur as they said it would threaten Chinese independence and might disturb the peace of the Far East. As a consequence Japan was compelled to give up Port Arthur.

European Expansion

Within a short time Japan was astonished to receive word that Russia had decided to take possession of Port Arthur herself and at about the same time Germany took possession of territory in Shantung province, France extended her holdings in the south of China and Great Britain joined in the game and added to her various holdings of Chinese territory.

Japan promptly decided that the only way to be respected in the world was to possess warships and armament and she immediately began to equip herself from a military standpoint.

The Russian War

After a few years Russia began to try to push Japanese influence out of Korea and finally in 1905 Japan declared war against Russia and to the surprise of the world the Japanese were everywhere triumphant on both land and sea.

As a result of the war Japan's influence over Korea was conceded and she also got Port Arthur and took over Russian interests in southern Manchuria and eastern Mongolia.

Japan was particularly interested in getting a foothold in Manchuria for here could be found both iron and coal and Japan was in need of both iron and coal in order that she might become a great industrial nation. Furthermore Manchuria and Mongolia contain many other valuable raw materials and the opportunities for Japanese colonization in these two provinces are very fairly good. While these two provinces are still supposed to belong to China, nevertheless the Japanese control them to a very large extent and Chinese sovereignty is fast becoming a fiction.

After the Russian war Japan repeatedly stated that she would respect the independence of Korea although insisting that her influence in that country must be respected by other countries. However, Japan gradually took over the government of Korea and finally annexed the country. Many Europeans and Americans protested against this annexation, but Japan claims that she only did what England has done in Egypt and what many other European countries have done in various parts of the world.

Japan has made great improvements in Korea but she has nevertheless proved herself to be a poor colonizer, because she has never won over the people of Korea who are still sullen and watchful for an opportunity to regain their independence.

Siberia

During the world war the Allies and the Japanese sent an expedition into Siberia. The Allies finally withdrew their soldiers from the country but the Japanese are still there and it looks as though they may intend to endeavor to permanently extend their influence over all of Siberia as far west as Lake Baikal but such an arrangement might very possibly bring about a future second Russian-Japanese war.

Encroachment on China

Since China became a Republic her government has been more chaotic than when she was a Monarchy, and constant changes in the administration have taken place. The Japanese have been fully alive to the situation and it is claimed that their influence over the Peking government is very great.

Certain it is that their traders and business men have been spreading all over China and that they maintain Japanese garrisons in many Chinese cities.

The Japanese of course control the Shantung peninsula which they took away from Germany and they have also declared a sphere of influence over Fukien province which is opposite the island of Formosa.

Many Japanese business men believe that in the future raw materials will come from Manchuria, Mongolia and Siberia, will be manufactured in the factories of Japan, and will be sold in the markets of China. It is hoped by these Japanese that Japan will own the sources of raw materials and that her influence in China will be so supreme as to give her something of a monopoly in the Chinese markets.

Acquisition of Islands

Ever since Japan became a modern nation she has been acquiring from time to time, various islands scattered up and down the coast of the mainland of Asia until at the present time she owns a chain of islands extending from Kamchatka to the Philippine Islands. It is only necessary to study a map to realize the strategic strength of Japan's position all along the coast of Asia. Recently Japan has extended her island possessions toward the south by taking over from the Germans the Caroline Islands and the Marshall Islands and various other German islands located north of the Equator. These new possessions include the Island of Yap where the much discussed cable station is located.

The Open Door

For many years the United States has stood for the "Open Door" in China and Manchuria and all of the nations interested in the Far East have consistently supported this policy in theory. However in practice the "Open Door" is a fiction in most of Manchuria and various parts of China. Before the war China was pretty well covered by the spheres of influence of Russia, Japan, Germany, Great Britain and France. Japan has now superceded Germany and has at least temporarily superceded Russia. The influence of Japan in China has gained enormously as a result of the war while the influence of Great Britain and France has suffered in some ways. The tendencies of the last few years would seem to point toward the closing of the "Open Door" and the monopolizing of the Chinese markets by a few powerful nations among which the United States would be conspicuous because of its absence.

A recent attempt to assure the inclusion of United States business men in the development of China has been made through the participation of American financiers in an international financial Consortium which has been planning to extend necessary loans to China for the development of the country.

This financial participation by Americans cannot but be advantageous to our interests, but nevertheless many people in the Orient feel that the "Open Door" will soon disappear except in theory unless new international agreements are made concerning the whole Far Eastern situation.

The whole question of the Far East will come up for discussion at the International Conference called by President Harding, and it is consequently very important that American business men familiarize themselves with Far Eastern conditions.

CHAPTER III

War On the Pacific

THE question is constantly asked all around the Pacific Ocean as to whether the United States and Japan will eventually fight a great war. The United States feels aggrieved because Japan is apparently closing the "Open Door" and Japan feels that she has several grievances against the United States.

California and the Japanese

Japan has strongly protested on various occasions against the laws of California which have discriminated against the Japanese and have made difficult their ownership of land in California. These laws provide that land cannot be held in California by any alien who is not entitled to become naturalized under our laws. As our laws provide that only white men and negroes can become naturalized the Japanese are of course barred from the ownership of land and the Japanese government considers that this is racial discrimination. They point out the fact that Turks, Mexicans, Hottentots and Zulus can own land under our laws but the Japanese are disqualified because they belong to the yellow race.

The Japanese cannot object to laws that bar all outsiders from owning land for they have passed laws that prohibit the ownership of land outside of their treaty ports by any aliens. However Japan objects to the discriminatory nature of our laws and has consistently demanded the recognition of racial equality.

At the coming International Conference to be held in Washington the question of racial equality will undoubtedly be brought up and it might do no harm and might on the other hand do considerable good for us to admit the political equality of the white and yellow races, but such a declaration by us should clearly point out the fact that our exclusion laws and land laws are made necessary by economic and not racial considerations and therefore could not be affected by our admission of political racial equality. Japan cannot logically object to this position for she herself, for economic reasons, bars out Korean and Chinese coolies although they surely enjoy racial equality with the Japanese.

As a matter of principle it would of course be wise for us in America to endeavor to frame exclusion laws and land laws so that they will be general in their scope instead of being apparently aimed against any one race or nation.

While the California grievances have been played up very strongly in Japan and while Japan is of course intensely interested in seeing that her people

obtain the best possible treatment in America, nevertheless many shrewd men feel that Japan has used very good diplomatic strategy in keeping our attention riveted on California while she was making her great advance in Manchuria, Mongolia and China.

Opposition to Expansion

The Japanese feel that the United States has always opposed Japanese expansion on the main land of Asia or in any other direction. They point to their need of expansion and call attention to the fact that the United States has not seriously objected to the expansion of European nations in Asia and in Africa. They furthermore cite the fact that the United States has done considerable expanding herself and is still extending her domain around the Caribbean Sea.

The Japanese feel that the Americans have given considerable encouragement to the Koreans in their agitation for independence from Japan and everybody in America knows how Japan feels about our opposition to Japanese control of Shantung and our position concerning Japanese possession of the Island of Yap.

Trade Rivalry

Japan feels that because of her geographical position she is entitled to dominate the trade of eastern Asia and as her business men and traders come into competition with Americans who are interested in trade with this part of the world there naturally results numerous causes for friction and bad feeling.

It is interesting to note that many Japanese feel that they are entitled to exclusive rights on the main land of Asia and there is considerable talk of a proposed Japanese policy to be known as "Asia for the Asiatics." This proposed policy is said to be justified by our Monroe Doctrine but upon examination the two policies are found to be entirely different. Under our Monroe Doctrine we do not keep garrisons permanently in South America nor do we interfere with the internal affairs of the countries south of us nor do we take any steps to monopolize their trade to the disadvantage of other nations. All of these things are being done by Japan in China and it is proposed to justify this policy by giving it the attractive title of "Asia for the Asiatics." If Japan would declare a real Monroe Doctrine and would then carry out this doctrine as we carry out our Monroe Doctrine the United States could not logically object because we have consistently stood for the integrity of China and equal opportunity of all nations to trade with that country.

Difficulties of Warfare

Should disagreements between the United States and Japan grow to a point where warfare was seriously considered it is certain that both countries would realize the difficulties of waging warfare with a nation so far away. It is true that the Philippines are at present a very weak point and could easily be taken by Japan but any idea that the Japanese could send an army across the Pacific and invade the United States is nonsense. Furthermore any idea that we could send an army of invasion to Japan is also nonsense. The Japanese would probably take the Philippines and then wait for us to come and take them back. We would probably not be so foolish as to try to take them back but would have our navy interfere as much as possible with Japanese trade and overseas interests. However in these days of new military and naval inventions it is of course impossible to guess as to how

such a war would be conducted, but it is certain that the intervening distance between the two nations would make warfare difficult and would consequently constitute a strong reason for the maintenance of peace.

Financial Losses of a War

The financial losses of a war would of course be serious for the United States but would be disastrous for Japan. We are Japan's best customer and it would bring bankruptcy to many lines of business if Japan were to fight her best customer. Furthermore she buys from us great quantities of essential raw materials without which a great part of her industry would suffer a considerable collapse.

The financing of such a war would seem to be entirely beyond the power of a people who are already very heavily taxed and who are living largely from hand to mouth. Before the world war it was suggested that either Germany or Russia might finance a war against the United States by the purchase of Japanese bonds but the conditions are now completely changed and the only market in the world where large issues of government obligations can be absorbed is in the United States. Then, too, the fact should not be lost sight of that in a war between the United States and Japan the interests of Canada and Australia would be just the same as the interests of the United States, and this situation would insure the support of Great Britain during the contest. Japan is unpopular in China and is constantly having trouble with the natives of Korea, and it is consequently permissible for us to presume that the influences of the mainland of Asia would be on our side.

No War in the Near Future

After studying the situation in the Far East it would indeed seem very unlikely that there will be any war between the United States and Japan until the passing years have brought great changes in fundamental conditions in this part of the world. We should however always keep in mind the fact that Japan is controlled by a military clique much the same as was Germany and that this clique is not responsible to the people but is nevertheless all powerful. If these men should so far lose their heads as to believe that a great war would be to the ultimate advantage of Japan, international trouble might very possibly ensue.

It would seem as though the United States should not be overawed by the thoroughly advertised military genius of the Japanese, remembering that while they have a great army and an efficient navy, they have nevertheless fought but two wars in modern times, one against the unprepared Chinese and the other against the corrupt and poorly led Russian forces operating many thousands of miles from home. The policy of the United States in the Far East should be strong, but on the other hand it should be carefully based on policies that are absolutely fair to Japan and every effort should be made for disarmament and mutual understanding for on good feeling and agreement between these two great countries the peace of the world largely depends.

CHAPTER IV

The Western Side of the Pacific

A MAP of the Western Side of the Pacific Ocean shows Siberia at the north, then Manchuria and Korea, after which comes the Republic of China. South of China are the Philippine Islands, Borneo, Celebes and New Guinea and farther to the south are Australia and New Zealand. The affairs of all of these countries are interwoven in the Far Eastern question and it may be of interest to note what parts of these great stretches of territory are of particular interest to the United States.

First of all it must be admitted that the future development and trade of Siberia is of some interest to us but Siberia has been looked upon as the permanent possession of Russia and we have consequently never felt that we possessed any vital interests in the country. If there is to be a change in the status of Siberia we are of course anxious to see that our business men receive fair treatment in that great section of Asia but nevertheless we cannot expect that there will be a trade of great magnitude with Siberia for a considerable number of years to come.

Korea is now a part of Japan, and Manchuria, including eastern Mongolia, is already generally acknowledged to be under the domination of the Japanese. In these countries we could develop a large trade, but their political affiliation with Japan is now so close that we cannot expect to obtain more than a small part of the business originating there.

The Republic of China constitutes a vast land of opportunity for Americans for here must be carried on enormous development works and a tremendous volume of trade. Japan is already endeavoring to control the north of China including Shantung province. Great Britain has spread her influence over the central part of the nation and also over various harbors up and down the coast. Farther to the south Japan has declared a sphere of influence over Fukien province, Great Britian has her holdings at Hong Kong, and the extreme southern part of the Republic is dominated by France.

The Philippine Islands are owned by the United States, and Borneo, Celebes and New Guinea are owned by Holland and Great Britain. Australia and New Zealand are parts of the British Empire and we could of course expect no great changes in our trade relations with those countries, which relations, by the way, are quite satisfactory.

As we look up and down the western side of the Pacific we must realize that China is the country of importance for us. From our standpoint it

might almost be said that under present conditions China is the only part of the western side of the Pacific worth seriously squabbling about.

Future American Policy

If some satisfactory arrangement can be worked out in Washington so that the integrity of the eighteen provinces of China can be maintained and orderly government developed and equal business opportunities extended to all nationalities it might be advisable to frankly recognize the need for Japanese expansion in Manchuria and eastern Mongolia, provided however, that the foolish armament race between the nations can be terminated and disarmament be gradually brought about. Under such conditions peace and good will should prevail in the Far East, and undreamed of development should take place in that part of the world during the next generation, in which development the United States would take a very considerable and a very helpful part.

If the Washington Conference does not work out a satisfactory arrangement in connection with the Far Eastern situation, then the United States must make up its mind to do one of two things, either to withdraw entirely from any large participation in Chinese affairs and leave the country to the tender mercies of those nations that are already on the ground, or else continue to strengthen our naval policy, adopt a strong position and be prepared if necessary to make a show of force.

The Philippines

If the old competitive spirit backed up by force is to continue to prevail and if the United States were to decide to withdraw from any serious participation in the resulting contest, the Philippine Islands would doubtless prove to be a considerable burden to us, and the sale of these Islands to Great Britain, France or Holland, all of which countries have possessions near them, would seem to be advantageous from our standpoint, particularly if we were able to arrange for an exchange of the British, French and Dutch possessions in and around the Caribbean Sea. If on the other hand we were to decide that our enormous economic strength and our ability to maintain a great navy justified us in joining in the scramble, then the Philippine Islands might prove to be a very valuable possession, located as they are at about the center of the western side of the Pacific. However it would be necessary for us to strongly fortify the Philippines and maintain a great naval base at Guam.

Congress has promised independence to the Philippines, but nobody in the East believes that they can be given independence for many years to come. There are over three thousand islands in the Philippine group, inhabited by some ten million natives belonging to many races and speaking many different languages. Of course very few of these natives are in any way educated and it is hard to understand how such a mixed mass of backward people can safely be given their independence. Well informed people believe that Philippine independence would merely result in the exploitation of the natives by the small but shrewd political group that already completely dominates the local politics of the Islands, and it is believed that in the end Japan or some other nation would find an excuse for taking the Islands over.

CHAPTER V

Business Conditions in Japan

BUSINESS men in Japan have recently experienced the same ups and downs in business as have Americans. During the war, and for some time following the armistice, Japan did an enormous export business, and large amounts of gold were consequently acquired. This gold served as a basis for great inflation, bank loans were increased, the circulating note issue was enlarged and, of course, costs, wages and prices all went rapidly up.

The Panic of 1920

In the early spring of 1920 the banks realized that prices had risen to a point beyond all reason and they began to feel that any sudden shrinkage in values would greatly embarrass many of their customers. Furthermore they found that they had extended about all of the credit that it was possible to extend and consequently they began to exercise great care in scrutinizing their loans. This carefulness on the part of the bankers served as a warning to business men and it began to be realized that prices had gone far beyond true values. In order to get themselves into a stronger position some of the business men began to sell silk and the price soon commenced to crumble. This price decline continued until silk that had been selling for around forty-five hundred yen per bale finally sold for less than fifteen hundred yen per bale. This enormous shrinkage in Japan's chief export staple carried down the price of practically everything else, causing many failures, brought about the closing of a large and important bank, and resulted in the temporary closing of the principal exchanges of the country. Japan experienced a good old fashioned American panic.

Fall of Silver—Artificial Prices

Japan's difficulties were made worse by the great fall in the value of silver because Japan sells a large part of her exports to China and other countries that are on a silver basis. The business man in China who had a considerable amount of silver on deposit in the banks found that this silver was worth less than half of its former value in gold standard countries like Japan. With the export market practically dead, and with many failures taking place it was of course necessary to close down many Japanese factories and to throw many men out of work. However labor in Japan is able to shift itself more easily than labor in America, and many of these working men went back to the country or secured some form of temporary low paid employment. This situation made it possible to maintain a fairly active home market, and

alleviated some of the difficulties of the situation. Furthermore the government took aggressive action and attempted to stop the decline in the price of some of the important staples. The government arranged to peg the price of silk at fifteen hundred yen per bale. It financed a pool that has bought and held large quantities of rice. It advanced money to industries in need of help, and it urged a decrease in the production of silk, rice, and other important products in order that it might be easier to maintain prices.

The Government in Business

It is quite surprising to Americans to learn how close the government is to business in Japan. Not only is business backed up in every way but the government itself is directly interested in many lines of business endeavor. The government runs the post office, the telephone and telegraph, the railways, and many of the utilities. It also owns the tobacco monopoly, the salt monopoly, the camphor industry and controls various banks, shipyards, warehouses and industrial plants and has not neglected to secure the control of newspapers and other means of publicity. In Japan it is against the law to talk or preach socialism and any attempt along this line is promptly suppressed. It is odd that in such a country state socialism should have gained such an impetus. Perhaps this may be explained by the fact that the state owned industries do not seem to be operated for the benefit of the "proletariat."

Cost of Living—Labor Unions—Strikes

Although wholesale prices and the prices of raw materials have tended constantly downward, nevertheless retail prices have not followed suit and this is causing great discontent. It seems that each line of business is organized in a guild and these guilds have broad powers over their members. It is claimed that the retail guilds have issued orders to their members to maintain prices at a fairly high figure and as a result the retailers have been "profiteering" and the public has been footing the bill. The working men also have their guilds but they have not held wages at a high enough figure to satisfy the workmen and consequently many of the workmen are endeavoring to form labor unions. It is against the law to organize labor unions in Japan but nevertheless some labor unions are being established and a large number of strikes are taking place. These strikes are practically all called for the purpose of getting increased wages. The men do not strike for shorter hours or for changes in conditions of management. At the present time wages are said to be very high, but they seem very low to us. For instance, carpenters receive less than $1.50 per day and street car conductors get less than fifty cents per day for a 10 or 12 hour day. However there is a tremendous amount of loafing on the job as a result of which it is said that labor costs about as much in Japan as in America.

The unusual activity of labor leaders in Japan has had a tendency to keep wages up and this has been a considerable factor in keeping up costs and also retail prices.

Influence of the Banks

The bankers of Japan have favored measures that would hold up values as in this way they hoped to limit the number of insolvencies. The Japanese banks belong to an organization called "The Associated Banks of Japan" and this association makes rules that are obeyed by the members and exercises very wide powers over financial conditions. This organization has recently come to realize that you cannot "keep your apple and eat it too." In other words prices cannot be held up in Japan in order to keep Japanese

business men solvent and at the same time a great export campaign be pushed on the necessary basis of low prices to foreign buyers.

More Liquidation Necessary

The chambers of commerce are well organized and exert considerable influence on public opinion. They have been pointing out the necessity for complete liquidation and have urged the business men to reduce costs in order that competition may be successfully met in the export field. Exporters state that American and European competition is becoming very keen and that new manufacturing industries in China are quoting prices lower than Japanese prices.

Prosperity Will Return Slowly

A further broad re-adjustment to new conditions must come about in Japan, as a result of which the domestic market will be placed on a sounder basis and the export trade will be able to quote better prices. The financial situation in Japan is constantly improving but there are still surplus stocks of goods on hand and a real business revival depends on a prosperous export trade. However, prosperity in the export trade will return slowly and it would appear that Japan must exercise patience and do some more house cleaning before a permanent period of prosperity can be expected.

CHAPTER VI

American Trade in Japan

AMERICANS have been selling great quantities of raw materials and considerable quantities of manufactured goods in Japan for some years and while great trade possibilities exist, nevertheless there are various difficulties that must be taken into consideration in connecton with the introduction of goods into the Japanese market at the present time.

Business Depression

First of all, the country is suffering from the severe business depression. The government and the banks in endeavoring to hold up wholesale prices to prevent insolvencies among business men, prevented the healthy liquidation of the cost of living. The high cost of living has held up production costs, and this is making it particularly difficult for Japan to sell goods in the present depressed export market. It would look as though business conditions must become worse before they can become better, and in the meantime the buying power of the country may become less than at present.

Unfriendliness

Another factor usually considered by business men in America is the unfriendly feeling toward our country held by many Japanese, notwithstanding the fact that most Japanese business men realize that the United States is Japan's best customer, and that friendly relations should accordingly be cultivated. After reading daily translations of the leading Japanese newspapers the average American would not blame the people for feeling unfriendly toward us, since many papers are jammed full of propaganda adverse to us, and the people are led to believe that we are a selfish, grasping, military nation, below the Japanese in civilization.

The Washington Conference will furnish an opportunity for adjusting the chief points of difference between the United States and Japan, but we must speak frankly and make our position very clear. The older commercial nations of the world have been treating the Japanese somewhat like children. They have praised their accomplishments, passed over their deficiencies and been very careful not to hurt their tender sensibilities. Straight talk and firm action will do more to clear up American-Japanese misunderstandings than polite phrases, complimentary expressions and timid tactics.

Our business men should most carefully watch the relations between our country and Japan, but the present situation should not deter us from entering the Japanese markets, for war at the present time is practically out

of the question and agreements satisfactory to both countries will very probably be eventually worked out.

Temporary Nature of Market

It is often claimed that the Japanese market is merely a temporary one, inasmuch as the Japanese intend to eventually manufacture for their own requirements. However, it must be remembered that a considerable number of years must pass before Japanese manufacturing can become very greatly diversified. At present there are 25,000 factories in Japan and some two million hands are normally employed, but the number of lines covered is comparatively small and the lack of machinery and experience makes it fairly difficult for new lines to be developed. Furthermore, labor is beginning to demand modern conditions and it would not be surprising if a general manufacturing readjustment were to become necessary during the next few years.

The market for manufactured goods and machinery will doubtless remain open to foreign manufacturers for a considerable number of years to come, and the market for raw materials would seem to be on a particularly permanent basis, although Japanese activities on the mainland of Asia may in time make it possible for Japan to there obtain many of the raw materials needed.

Dishonest and Unethical Practices

Many American business men have hesitated to do business with the Japanese because of the reputation they have acquired for dishonest methods, such as appropriating trade marks, disregarding patent rights, cancelling contracts, refusing to accept shipments, etc. We must remember, however, that until recently a man engaged in trade in Japan was looked down upon and, consequently, high class men were not very often encountered in trade transactions. This situation has largely changed, but nevertheless, Japanese business men of today are suffering for some of the sins of the past as well as those of the present. Very little difficulty on this score will be experienced in Japan if American business men will use proper caution in checking up the standing of the people with whom they propose to do business, for there are many strong and honorable firms in all lines of business in the Empire of the Mikado.

Exchange

During these days of wildly fluctuating foreign exchange, exporters to Japan are of course vitally interested in the value of the Japanese yen. During the war Japan became a creditor country for a short time and the yen was quoted at a premium over the American dollar. However, Japan is no longer a creditor country for the balance of trade has turned against her and the yen has fallen to a small discount, but this discount is not large when the adverse trade balance is taken into consideration and allowance made for the fact that Japan has been buying in her own government bonds in the New York and London markets. The fact that the yen has not fallen lower leads to a strong suspicion that it is "pegged" by the Japanese government. Japan holds plenty of gold and it would not be necessary for the government to support the exchange were it not for the fact that there is an embargo on the shipment of gold from the country and it is therefore impossible for the bankers to hold up exchange through gold exports. If the government has pegged the exchange, then Japan must be releasing some of the gold that is held in foreign countries, notwithstanding the fact that gold is not allowed to be shipped out of Japan.

There would appear to be little danger of any demoralization in Japanese exchange, although it will certainly be necessary for Japan to release considerable gold in order to offset the adverse trade balance, but a domestic readjustment to a lower price level will, after awhile, make it possible for Japan to increase her export of goods and this will, of course, lessen the demands for her gold. However, it would be well to keep in mind the fact that Japan will remain a debtor country for a long time, and that she must consequently borrow money abroad or ship gold, and a considerable change in the financial situation may very possibly develop some time in the not distant future.

How to Sell Goods

In proceeding to introduce manufactured goods into Japan it is possible to make arrangements with reliable American or Japanese trading companies, but as these companies handle a multitude of lines, an able representative should occasionally be sent to Japan to create interest in the goods being sold and make sure that the trading company is properly pushing the line.

The greatest success will be obtained by opening a modest office in Japan and sending over a representative. The office must be opened with the idea of permanence, and the representative must be a high-class, well educated gentleman who will be able to develop a good social position, and who will go to Japan with the idea of making it his permanent home. The Japanese are great believers in tradition and permanence, and this idea of permanence must be played up strong in order to get the best results. If this kind of an arrangement is made and the business is allowed to grow slowly, it doubtless will grow surely.

Some American concerns have entered into partnership arrangements with Japanese distributors but most of these arrangements have proven unsatisfactory although in several instances, due largely to the unusual personality of the American representatives sent over, partnership arrangements have worked out successfully.

Perhaps sometime in the future Americans may find it desirable to organize Japanese corporations for the purpose of carrying on manufacturing operations in Japan in the same way that we now organize subsidiary corporations for the purpose of operating manufacturing branches in Canada.

When arrangements for proper representation in Japan have been made it will be necessary for the people at home to give the most careful attention to the goods that are sent out. Goods should be packed in such a way as to be conveniently handled by coolies or on the backs of ponies, and due consideration must be given to local good luck signs, odd sizes and shapes that are used in this market, lucky colors and the large number of small details that enter into the manufacture and sale of goods if they are to be popular in Japan.

Chambers of Commerce

It is quite surprising that there is no American Chamber of Commerce in Japan. All the great commercial nations have for some time been busy establishing their chambers of commerce in all parts of the world, and the United States should keep up with the procession. The Japanese have established a system of Japanese chambers of commerce in the principal cities of China and these chambers occasionally join together for general meetings, and keep in close touch with the chambers of commerce in Japan.

Get In at the Bottom

The United States has suddenly become the strongest industrial nation, and our present capacity for production will make it necessary for us to more seriously develop our foreign trade. If the Washington Conference attains the results that are hoped for, American trade with Japan will be given a great impetus and there will perhaps be no better time to begin to broaden our activities in the Japanese market than the present when prices are near the bottom and business is poor, for under such conditions a slow, sure beginning can be made and the danger of losses from price fluctuations will be largely eliminated.

CHAPTER VII

American Capital in Japan

NOWADAYS, American capital is beginning to take an interest in the development of foreign countries, and there would seem to be two fields of operations in the Land of the Rising Sun, one in Japan proper and the other in connection with the Japanese projects on the mainland of Asia.

Development in Japan

A short inspection of Japanese cities and towns is all that is necessary to convince an American that practically all of the conditions of living must be improved if Japan is to become a really civilized country. The progress of the last fifty years has been very great, and all indications point toward a gradual improvement in the living conditions of the masses of the people until they may some day in the future somewhat approach living conditions in Europe and America. It would therefore appear certain that during the next twenty or thirty years enormous contracts will be let for the construction of sewers, water mains, gas and electric plants, the paving of streets, the building of roads, and the rebuilding of nearly all of the houses in the country.

Of course, in the past people have lived very fairly comfortably and have not really needed many of the public improvements that usually go with civilization, but wealth and prosperity are increasing in Japan and the time would seem to be about here when the modern comforts of other civilized countries are going to be gradually extended from the small prosperous upper class to the masses of the people, but it must be realized that this process will be a slow one, for the Japanese people do not like booms or boomers and prefer to make changes slowly and conservatively.

Already throughout Japan considerable development has taken place in connection with business and industry, but it is very apparent that during the coming years many hotels, office buildings and public institutions must be built and many new factories and industrial plants must be constructed. Furthermore, railroads must be considerably extended and additional docks and harbor facilities must be provided.

With all of this construction in contemplation, it is interesting to note that the Japanese are not as yet considered good builders when large modern construction is to be executed and consequently there would seem to be good opportunities for strong and able American architects and contractors.

In many countries in need of development, the capitalist, the contractor and the practical operator have worked hand in hand. If an electric light plant

was needed, the capitalist has handled a bond issue, secured by a mortgage against the electric light plant and usually guaranteed by the municipality, the province, or the nation. The contractor has then built the plant, whereupon the practical operator has taken charge and has operated the plant for a considerable term of years under an operating concession. The financing, the construction contract and the operating concession were usually all parts of one transaction and were all provided for in one document.

The Japanese are very much averse to entering into contracts with foreigners covering financing, construction and operation under concession. They are somewhat fearful of the foreign capitalist and they prefer to operate their utility and industrial plants themselves. However, they are not averse to the employment of foreign contractors, and consequently greater opportunities would seem to be available for the contractor than for the capitalist and the operator. Nevertheless, Japan will need a large amount of foreign capital unless her development work is to be allowed to drag along over a great many years, and American business men may eventually find it advantageous to organize Japanese corporations for the purpose of financing, constructing and operating utilities and industries in Japan, but such corporations will, of course, be organized under Japanese laws and will have none of the earmarks of foreign exploitation.

Development on the Mainland

It would seem that Japan could advantageously use large amounts of foreign capital in developing her projects on the mainland.

The military party in Japan apparently believes that the next period of Japanese history should bring about the development of sources of raw materials and should result in a tremendous increase of the economic strength of the country. The militarists realize that economic strength is necessary to back up the army and navy and make Japan a supremely great nation. The militarists never seem to consider the possibilities of developing the economic strength of Japan and making her a supremely great nation without the army and navy. It is said that this is due to the fact that they feel that the Japanese are poor business men and will not be able to meet foreign competition in Asia without special advantages. Military control insures these advantages and consequently they not only think that the development of economic strength is necessary to back up the army and navy, but they believe that without the army and navy economic strength cannot be created. They feel that the two go hand in hand and the field of operations is, of course, the mainland of Asia.

The Japanese want no interference with their plans on the mainland and consequently they want no partners. While they could use foreign capital to advantage and a partnership between American capital and Japanese experience would be advantageous from an economic standpoint, nevertheless, it would not be desirable from a military standpoint and consequently Japan prefers to go it alone.

The advantages of military control may be illustrated by the conditions in Manchuria. The open door is supposed to be still open in Manchuria, but the Japanese have been getting all the trade and other nations have recently had a hard time to sell any goods. The railroads are owned by Japan and the Japanese business men are able to secure prompt freight deliveries while the foreigners often wait. It is also surmised that railroad rebates some-

times go to Japanese firms who are competing with firms of other nationalities. The telegraph lines are owned by the Japanese as well as the post offices, and it is claimed that Japanese firms receive undue advantages in connection with the prompt delivery of mail and telegrams. The banks are largely branches of Japanese financial institutions, and American business men sometimes charge that the banks have a habit of manipulating the exchange market to the disadvantage of business men not of Japanese nationality. The collection of import duties is subject to the influence of the Japanese and it is claimed that there are cases on record where Japanese traders were able to avoid the payment of any duties on the goods that they sent into the country. In fact, it may be said that the general influence of political control, backed up by armed garrisons, is too great a handicap for foreign business men to overcome and results in Japanese supremacy in the developing of raw materials and the carrying on of trade.

This policy of the Japanese might lead to ultimate prosperity if it did not come into conflict with the interests of other nations. Militarism in Germany might have been all right for Germany if it had not come into collision with the rest of the world. There are certain principles of justice and fair dealing that it does not profit individuals or nations to disregard, and history would seem to warn Japan of the dangers of some of her present policies. She would indeed be wise if she were to give up militarism and monopoly and substitute friendliness and international co-operation.

CHAPTER VIII

The Government of China

WHEN the Emperor Kuang Hsu and the old Empress Dowager Tzu Hsi both died in 1908, a little boy, Hsuan Tung, succeeded to the throne and Prince Ch'un was appointed Regent to act until the Emperor became of age. The ruling family had become very corrupt and very weak and a change in the dynasty had long been urged by many influential people. The new Prince Regent was not as strong a character as the old Empress Dowager and the agitation for some change in the government became continually stronger and many of the provinces began to demand provincial autonomy. In 1911 some local trouble broke out at Wuchang and the weakness of the central government in putting down this disturbance led to a considerable spread of the disaffection and finally several provinces declared their independence and a great part of the southern and western sections of the country became involved. The Prince Regent called to his assistance Yuan Shih k'ai who was looked upon as the strongest man in China. Yuan was made Prime Minister and a liberal constitutional monarchy was proposed. However the Cantonese and other southerners realized that things were all going their way and consequently insisted upon the establishment of a republic. The government in the north suggested that the form of government be put to a vote of the people but while negotiations were being carried on a provisional government was established at Nanking and Dr. Sun Yat Sen was elected provisional President. In February 1912 the Manchu dynasty abdicated and suggested that the government should be a republic henceforth and that Yuan Shih k'ai should act as provisional President. The assembly at Nanking agreed to the suggestions of the Manchu dynasty and also bound the new government to supply adequate funds for the future financial support of the ruling family. Dr. Sun Yat Sen then resigned as provisional President and Yuan Shih k'ai was elected in his place.

Meeting of Parliament

In 1912 the National Assembly which had moved from Nanking to Peking adopted fundamental laws and in 1913 the first Parliament assembled. The right to vote was restricted by educational and property qualifications but nevertheless the plan for the election of Parliament was along democratic lines. Yuan Shih k'ai felt himself to be the strong man of China and before very long he got into a fight with Parliament, the result being that a revolt was started against him in the south of China which he finally put down by force of arms. Parliament finally passed a law providing that the President

of the Republic should henceforth be elected by the two houses of Parliament and in 1913 provisional President Yuan was elected, not without great opposition, the first regular President of the Republic.

Restoration of Monarchy

Between 1913 and 1915 President Yuan ran things with a high hand. He forced his opponents out of Parliament and had the fundamental laws changed to suit himself. He finally had the provinces appoint hand picked electors to vote upon a change back to a monarchy and these electors practically all voted for a monarchy and also voted for Yuan Shih k'ai as Emperor. The Monarchy was proclaimed at the end of 1915 but a serious revolt immediately sprang up in the south and it is said that the Japanese who had always disliked Yuan assisted in stirring up trouble for him all over China. Yuan decided that the jig was up and renounced the title of Emperor. He appointed an influential man, Tuan Chi-jui, Prime Minister and promised a reversion to constitutional government. However the south organized a provisional government at Canton and came out strongly for the elimination of Yuan from public life. At this stage of the game Yuan died and the Vice President, Li Yuan-hung became the President while Tuan Chi-jui remained as Prime Minister and soon became the strong man of the administration. Parliament reconvened in August 1916 and it looked as though the Republic might have smoother sailing, but before very long the Prime Minister got into a disagreement with Parliament and the President dismissed him. This led to a revolt in the north by the followers of Prime Minister Tuan and an attempt was made to set up a new government at Tientsin.

Second Restoration of Monarchy

The President was in great need of help and he called to his assistance General Chang Hsun who had considerable military prestige. General Chang agreed to put down the revolt in the north but demanded that the President dissolve Parliament and the President was forced to take this action even though he himself believed that he did not have the legal power to do it. A part of the Parliament withdrew to Canton and established the Southern government that has been opposing the Northern government ever since. In the meantime General Chang promptly went back on the President and declared the Manchu boy Emperor to be again the ruler of China with the idea of he, himself, acting as Regent. The President now turned to the northern revolters and reappointed Tuan Chi-jui as Prime Minister. Tuan led an army to Peking and in five days the imperialists surrendered and the boy Emperor was sent back home again. Li Yuan-hung then resigned as President and the vice President Feng Kuo-chang became the President. Tuan remained as Prime Minister and with Japanese influence continued to be the strong man of the administration notwithstanding the fact that he disagreed radically with the President. The south of China refused to come back into the fold as they claimed that the northern government was imperialistic and controlled by Japan.

New Parliament Summoned

Feng Kuo-chang did not last long as President for a Parliament was summoned under a new law that had been promulgated and the present President, Hsu Shih-chang, was elected. This was in October 1918 and the new President arranged for Tuan to remain as Prime Minister. The government of the south refused to recognize the new Parliament or the new Presi-

dent and pointed out the fact that the Prime Minister and the new President were controlled by the powerful military governors of three of the northern provinces and claimed that these military governors with Japanese co-operation were the real powers behind the Peking government.

Every dog has his day and after a while the northern military governors gave their support to General Wu Pei-fu who by force of arms ousted Prime Minister Tuan. General Wu then suggested that a National Convention be called together in order that the difficulties of China might be ironed out, but this did not strike the fancy of the northern military governors and General Wu was hastily relegated to the background while Chin Yun-keng, a protege of the military governors, was made Prime Minister and still holds that position although he has recently been threatening to resign because of disagreements with the President. At the present time everything is being done by Presidential mandate upon recommendation of the Cabinet, both the President and the Cabinet holding their positions subject to the pleasure of the northern military governors.

Present Confusing Situation

At the present time the north and the south are supposed to be carrying on a war against each other but this war seems to have degenerated into a free-for-all fight between the ambitious military governors of various provinces. Recently General Wu Pei-fu of the north has been "coming back," for he has been winning battles against the south and has revived his National Convention idea. He is opposed by strong men in the north and his continued success will doubtless lead to important changes in the political line-up in that part of the country.

In the south all is not harmony for Dr. Sun Yat Sen is having trouble with General Chen Chiung-ming who seems to wish to supercede Dr. Sun as the big man of the south and the southwestern and western provinces have recently been talking about the establishment of a third government with headquarters at Wuchang.

Then it must not be forgotten that the Manchu boy Emperor is now almost of age, that a descendant of the old Ming dynasty stands ready to accept the throne upon any slight indication of an invitation, that wonderful possibilities exist for the military governor who is powerful enough to develop into a Dictator and become the next Strong Man of China and that in the meantime the menace of Japan hangs over the whole situation.

Such is the republican form of government in Far Cathay!

Reasons for Failure of Republic

The failure of the Republic to bring about the beneficial changes that were hoped for is due largely to the fact that the Chinese masses are entirely illiterate and pay not the slightest attention to politics. They are interested only in their own local affairs and care not who rules the country so long as the tax collector. Another reason for failure is the fact that every Chinese official feels that public office is merely an opportunity to get rich. Ignorance and disinterestedness at the bottom and dishonesty at the top have so far made it impossible for a republican form of government to succeed.

While it would appear that the coming of a dictator and the creation of a constitutional monarchy would seem to be natural things to expect, nevertheless it must be remembered that large numbers of western educated students are returning to China every year, that the excellent mission schools and univer-

sities are turning out large numbers of intelligent future leaders, that newspapers are carrying new ideas to those who can read and that the extension of railroads is gradually bringing new thoughts and suggestions to practically all of the people of the country. Some well informed people feel that if Japan and other nations will give China a chance, the growing intelligence of the Chinese people and the popularity of the idea of provincial autonomy may eventually result in the establishment of strong provincial governments whose powers will extend exclusively to domestic matters, all of these provincial governments being held together by one central government whose powers will extend exclusively to those matters of national and international concern.

Perhaps it can hardly be expected that any form of government will be permanently stable in China so long as the country must face the problem of overpopulation. All Chinese history is filled with stories of revolts, rebellions, brigandage and loot and a large part of this disorder has been due to overpopulation. The Chinese have always been willing to fight and steal rather than starve and as the population always increases faster than the food supply there is always a large section of the people on the brink of starvation and these are always willing to join whatever military or bandit leader may come along. Over-population must continue in China regardless of any new developments so long as the Chinese people continue to look with favor upon the marriage of minors, the practice of polygamy and the Confucian teaching that every man owes a duty to himself and to his forebears to leave behind him in this world a numerous company of ancestor worshipers.

The domestic troubles of China do not make impossible the extension of trade with this great country for the so-called treaty ports are usually undisturbed by the goings and comings of the warriors and the political chieftains, but under such chaotic conditions the progress and prosperity of the nation cannot make any great forward strides and the real development of China must await the day when honest and stable government shall be established.

CHAPTER IX

The Hopes of "Young China"

"YOUNG CHINA" has been represented by most foreign writers as enthusiastic and progressive in the making of plans but slow and decidedly impractical in carrying them out. However, most of the representatives of Young China impress the average American as high grade, intelligent and alert young men. Many of them are engaged in banking, manufacturing, engineering and general business and their conversation and manners are exactly the same as the conversation and manners of a group of high class, well educated young American business men. If in some things they may occasionally give indications of being impractical it must be remembered that they are yet young men and have not gained the experience of age, that a classical education in an American university sometimes leaves even American young men with impractical ideas, and that they must live down the natural tendency of the Chinese race to make plans and then put their execution off and let the future take care of itself.

It may be of interest to outline some of the matters now being discussed by these young Chinese business men as their ideas represent the ambitions of a new and powerful force in China.

Foreign Settlements and Spheres of Influence

Young China would like to see "foreign settlements" in China abolished as they were in Japan and hopes that in the future the spheres of influence marked out by foreign nations will be abandoned.

The foreign settlements represent sections of Chinese territory under the control and government of various foreign nations, they having been created in order that foreigners might have protection and safety in transacting business in China. These settlements are usually administered by a council elected by the tax payers but the Chinese tax payers within the settlement are allowed no representation even though they are usually much more numerous than the foreign tax payers. Young China urges that the Chinese tax payers be taught the principles of good local government by being given representation on the local council with the provision that a majority of the council shall always be made up of foreigners. It is hoped that the Chinese may gradually learn proper methods of administration and that the time will finally arrive when the settlements can be abandoned and foreigners will feel safe to live in China without this form of protection.

Spheres of influence were marked out in China by various powers in accordance with the theory of the balance of power. If China was to be partitioned, each nation wanted a good piece of the pie in order that the balance of power among the nations might be maintained. As a result of the world war the balance of power idea is a thing of the past and the danger of a partition of China among the nations of Europe would seem to have disappeared. Young China hopes that all spheres of interest may ultimately be given up by European nations and that Japan may be persuaded to join with them in the real maintenance of the Open Door in China.

Extraterritoriality

Each of the important foreign nations, including the United States, maintains its own courts in China and its citizens are subject to their own laws and must take all legal matters before their own courts. This system is known as extraterritoriality and it is maintained because of the lack of modern judicial standards in China. Young China hopes that this system will be done away with in time as it was done away with in Japan and it is hoped that Chinese knowledge of modern legal practices will rapidly grow, that a new judicial system may in the near future be put into practical effect and that trial by jury may ultimately be established. (It is interesting to note that trial by jury is unknown in the Far East.) Young China urges that the foreign courts help to educate the people by appointing Chinese as assistant Judges and court officers and it is suggested that the United States could add to its great number of friends in China if, at some opportune time, it should enter into a treaty with China providing for the giving up of extraterritoriality upon the maintenance by China for a stated number of years of such judicial standards as may be set forth in the treaty.

Tariff

Many years ago China agreed with Great Britain that she would not levy tariff duties at a higher rate than five per cent. Since this agreement was made China has signed treaties with many nations containing the "most favored nation" clause and she is now unable to modify her tariff agreement with Great Britain unless all of these other countries acquiesce and this some of them have refused to do. As a result of this situation China is unable to change her tariff schedules in accordance with the needs of the country and her tariff revenues are greatly restricted. Young China hopes and prays that the important nations will not continue to take advantage of a hard bargain and that an agreement may be arrived at in the near future under which China will be allowed to exercise some control over her own tariff schedules. The collection of the present duties is in the hands of foreigners as the duties are pledged as security for Chinese government loans placed in foreign countries and it is urged by the educated young men of China that an increasing number of Chinese officials be instructed as to the proper methods of administering the customs by being given employment under the present foreign officials who have charge of the customs organization.

Foreign Control of Financing

For a good many years China has been borrowing money in foreign countries and originally there was great competition among foreign nations who wished to look after her monetary needs. As a result of this competition China was able to get very good terms and was able to play the political schemes of one country off against those of another. However, some years

ago Great Britain, France, Germany and the United States entered into an arrangement by which their bankers acted together in loan negotiations with China. This was known as the "four power group" and later on this was extended to the "six power group" by the admission of Russia and Japan. This arrangement was of course terminated by the war and there has now been organized a new "Consortium" made up of bankers representing Great Britain, France, Japan and the United States. It has been suggested that a group of Chinese banks might be invited to join the Consortium but the indications are that the Chinese banks would decline such an invitation believing that it is to the interest of their country for them to remain independent of any international group.

Young China objects to the fact that loans made by these groups for the construction of railroads and other purposes have not been looked upon as strictly business transactions but have been considered as political in their nature and have carried with them grants of power by the Chinese government that may very possibly interfere with Chinese sovereignty in the future. The educated young men of China hope that political finance has come to an end and that future financing in China will be based entirely upon business considerations and will have as its sole object the development and building up of the Republic.

Foreign Postoffices

All of the important nations, including the United States, operate their own postoffices and maintain their own system of mail collection boxes in the important treaty ports of China, and Japan goes them one better by maintaining her postoffices in many parts of the country. Young China looks upon this as a great indignity and furthermore feels that it is depriving China of a large postal revenue that naturally belongs to her. Furthermore it is claimed that the huge morphine and opium trade that has recently been developed by Japan in China is being carried on through the Japanese mails, the drugs being sent through the Japanese postoffices to Japanese residents in China who illegally sell them to the Chinese. It is claimed that when the Chinese officials succeed in apprehending the Japanese drug distributors the extraterritorial system makes it possible for the Japanese to be promptly cleared by taking their cases before their own Japanese court. Young China realizes that the Chinese postal service is not the most reliable in the world but nevertheless it is hoped that some agreement may be entered into in the near future that will change present unfair and unsatisfactory conditions.

The Aggressions of Japan

Young China believes that the Japanese intend to get the administration of the affairs of the country into their own hands.

Japan has annexed Korea and is in control of Manchuria and eastern inner Mongolia. She is in at least temporary complete control of Shantung province and she has been gradually getting control of the affairs of Fukien province. Furthermore the intention of Japan to greatly extend her political control of China was clearly shown by the famous "twenty-one demands" that were made by her during the war.

Japan has been carrying on war-like penetration of China and at the same time she has not neglected so-called "peaceful penetration." She has loaned huge sums of money to China and through these loans she has managed to get control of the operation of some of the railroads, has acquired the virtual ownership of the great iron and steel industry located in the neighbor-

hood of Hankow, and has secured a strong hold on the Chinese government banks. Furthermore she has been granted the privilege of exploiting the great forests in the north and of developing the mines in various parts of the country and she is also operating many public utilities and industrial enterprises. In connection with the control and management of business and industrial undertakings Japan usually claims the right to send in troops to protect Japanese business interests whenever she feels that these interests are threatened because of local disorders.

Young China is much exercised over the fact that Japanese garrisons have been established in various parts of the Republic, Japanese police stations have been illegally placed upon Chinese soil, Japanese telegraph lines have been constructed and telegraph offices opened in numerous places, Japanese postoffices have been scattered over the country and Japanese peddlers and small tradesmen, who often act as secret service agents, have, contrary to law, been very active in many of the provinces.

It is of course a well known fact that Japanese influence at Peking has been predominant during the past few years and it is also claimed that Japanese agents have been very active in keeping the country divided and that they have used large sums of money in their endeavor to promote domestic political chaos. To the young men of China who are familiar with the history of Korea the Japanese programme appears to be quite plain and they greatly fear that their country will follow Korea under the rule of Japan.

Young China is inclined to blame the British for the recent Japanese aggressions for they feel that the existence of the Anglo-Japanese Alliance led Japan to feel that she could go ahead with her programme in China without fear of outside interference and without any danger of antagonizing Great Britain. It is said that under present conditions the renewal of the Alliance would precipitate a great trade boycott against the British as well as the Japanese.

Young China looks to the Washington Conference to work out some agreement that will save China from Japan. The idea of any kind of an international protectorate is very unpopular for Young China does not believe that such an arrangement would work out to the advantage of their country and it is felt that the jealousies between the nations that might undertake to establish such a protectorate would surely result in trouble for the Celestial Republic. The Japanese have been doing a great deal of talking about a Monroe Doctrine for Asia and Young China seems to think that it would be a good plan for the Washington Conference to actually establish a real Monroe Doctrine covering China. Under such an arrangement the principal nations would serve notice that no territorial encroachment by any nation would be permitted in China and that the Open Door would be kept open just the same as it is kept open in South America under the American Monroe Doctrine. Young China believes that China can establish modern stable government in a much shorter time than was required by the leading South American nations provided only that she is accorded the same opportunities that were accorded to South America. Here would seem to be a programme in full accord with American policies and traditions and in harmony with policies that the Japanese have at least claimed to espouse.

An American News Service

Young China calls attention to the total lack of an American news service in China. The Associated Press does not operate in China and the news

is supplied by Reuters, owned by the British, and Kokusai, owned by the Japanese and closely connected with Reuters. Very little American news filters through except that the leading murders, riots, explosions and divorces seem to be fairly adequately reported. This situation is very disadvantageous to American business interests and to American political standing. It is said that the news of the Lansing-Ishii note was released by the Japanese news service in Peking even before it was released in America and the Japanese explanation of this note was thoroughly spread all over China. There was no news service to carry our interpretation and consequently much unfriendliness was developed toward America and the damage that was done has not yet been fully repaired. It would seem to be very greatly to the interest of the business men of America to have an American news service cover China during the Washington Conference for only by interpreting the news ourselves will we be able to retain Chinese friendship, particularly, if some of the decisions of the Conference are contrary to the desires of China.

Chinese Students in America

It is interesting to learn from returned Chinese students just how they were treated while they were in America and in this connection there would seem to exist a great opportunity for Chambers of Commerce to help our future Chinese trade. There are several thousand Chinese students now studying in American universities and it has perhaps never occurred to us how much these students would appreciate any attentions that might be shown them by our business men and Chambers of Commerce. Most of these young men would like to get personally acquainted with our business leaders and would like to get some good practical sound advice regarding their education and their life after they return to China. It would be a fine thing for our Chambers of Commerce to occasionally invite these young men to dinner, to appoint special committees whose duty it would be to occasionally advise with them, and to interest our business men in taking some of these young Chinese into their family and business circles. These young men are to be the future leaders of China as is plainly seen by the influence that returned students are now exerting in the Chinese Bankers Association and the Chinese Chambers of Commerce, these organizations being perhaps the most constructive forces in China today. American business men should win the close personal friendship of these students. The relationship will be of great value to the students today and will pay great dividends to us tomorrow.

Friendship for America

The young men of China have confidence in the future of their rich and boundless country notwithstanding its present difficulties because they rely upon the friendship of America to help them over the rough places. No country in the world enjoys such confidence among the Chinese as our own great Republic and to our business men would seem to fall the duty of using every care to see that this confidence shall never grow less.

CHAPTER X

American Business Opportunities in China

CHINA is a country of wonderful undeveloped resources and its population is made up of the hardest working people in the world. It would consequently seem that the coming of industrialism will greatly increase the purchasing power of the country and add tremendously to the importance of the Chinese market. The popularity of Americans is very considerable and their opportunities here should be most excellent but on the other hand there are various difficulties to be encountered and only large and strong American concerns should attempt to come into this market at this particular time.

Business Conditions

During recent years China has experienced much prosperity but just at present the prosperity of the country has temporarily waned and a considerable depression has developed. During and after the war the price of silver was very high and then when business depression spread over the world the price of silver took a great fall. As all business in China is transacted on a silver basis this fall in the price of silver resulted in enormous losses to business men. Furthermore about this time the country suffered from a great drought that destroyed many of the crops and this drought has been followed by great floods that have seriously injured this year's crops. All of these things have resulted in cancellations of orders, protested drafts and failures and it would appear that "honest John Chinaman" has been learning some business tricks from other nations.

China almost completely lacks the broad and complicated business and economic organization that is so necessary in carrying on the affairs of the people of modern nations and this lack of organization constantly holds China back. However at just the present moment it may perhaps prove to be an advantage because there has been no economic machinery to get out of gear and consequently economic readjustment will not be so severe as in other countries. While there may be a further weeding out of weak concerns, nevertheless there would seem to be no need for a further general domestic liquidation such as appears to be necessary in Japan and favorable crops together with a fair improvement in the export market for China's products will doubtless bring back prosperity.

Domestic Political Situation

As is well known the domestic political situation is in a chaotic condition and while these domestic troubles do not seriously affect the business man in the treaty ports nevertheless they tend to decrease trade and commerce in the interior and consequently have a detrimental effect upon the general business of the nation.

International Political Situation

The international political situation has a very direct effect upon business with China because business is always adversely affected by such great uncertainties as those entering into the so-called Far East Question. It is hoped that the Washington Conference will make it possible for American business men to proceed with confidence in the stability of international understandings affecting the Far East.

Exchange Difficulties

All business in China is transacted on a silver basis and the local currency fluctuates in value from hour to hour in accordance with the changes in the price of silver as quoted in London and New York. Furthermore the local demand and supply affects the local rates and there are various and sundry other influences entering into the frequent ups and downs. The entire monetary system is quite surprising to a new comer. In Shanghai he learns that his New York draft must be converted into silver taels but as there is no such coin in existence it is necessary for him to convert the taels into silver Chinese dollars. In converting his New York draft into taels he finds that the rate of exchange is very erratic and in converting his taels into dollars he finds that here again the rate of exchange must be considered. The newcomer's respect for the peculiar type of financial genius that has developed in China will continue to grow when he draws one dollar out of the bank and receives ten dimes but later on learns that if he wishes to deposit one dollar in change to the credit of his account it will be necessary for him to produce eleven dimes. His respect for the local system will be still more enhanced when he changes a dime into pennies and receives ten and then later on buys a ten cent cigar and is told that it requires thirteen pennies to make a dime.

It is absolutely essential for American business men who intend to do business in China to make a most careful study of the influences that affect exchange, for business with China will develop into nothing but a gamble on the price of silver unless the exchange situation is thoroughly understood and proper exchange reserves are set up against possible losses.

How Goods Are Being Sold in China

There are three methods that are being employed by American firms in selling goods in China. The first of these methods is representation by trading companies, but the usual arguments against the use of trading companies apply in the Chinese trade as elsewhere. These companies represent a very large number of lines and are consequently unable to push each individual line to the best advantage and trading companies of nationalities other than American are quite often inclined to advance the interests of their own nationals at the expense of the interests of Americans. When trading companies are used, American firms should maintain able, experienced, traveling representatives in the Far East who will check up the

trading companies and help to popularize the American goods that are being offered for sale.

The second method that is being used by American firms is the establishing of sales branches in China. The usual advantages of this method apply particularly in China where so many local conditions must be understood. Branch sales offices should be started in a small way, should be in charge of high class, well educated representatives and the home concern should realize that it is vitally important for them to back up their Chinese branch in every possible way. Chinese specifications should be followed and no attempt should be made to induce the Chinese to adopt American specifications. All of the prejudices and special requirements of the Chinese market should be given the most careful attention and absolute satisfaction both in connection with the goods and with the time and manner of delivery should be striven for. It should not be forgotten that government-backed Japanese competition is very close to this market and any dissatisfaction on the part of the customer may send him into the Japanese fold. Furthermore the competition of Europe is fairly strong, the Germans enjoying very strong friendships in China and having recently been able to quote very low prices due to the condition of mark exchange. American business concerns that establish branches in China should in most cases expect to lose money for the first two or three years until their business interests become thoroughly established.

American Factories in China

The third method that is being adopted by some American firms is the opening up of local factories in China in much the same way as American firms have established branch factories in Canada. This would appear to be the one best bet in China for American manufacturers. Many lines of American goods cannot be sold in China because the people are unable to pay the price, but by establishing factories in China prices can be brought down to a point that is more nearly within the reach of the Chinese public. The establishment of such factories will not take employment away from American workmen because the business secured by these branch factories in China will be almost entirely new business that could not be secured at all except through the opening up of these factories. The best results will be obtained by those lines in the production of which labor represents the largest element of cost and for the production of which necessary raw materials can be readily obtained in China. In America the elements of cost in the order of their importance are labor, supervision and materials. In China the order is reversed and the elements of cost are materials, supervision and labor. Chinese factory labor is now being paid from nine to fifteen Chinese dollars per month for a twelve hour day. This would be equivalent to from four dollars and a half to seven dollars and a half United States money. Many women and children are also employed and they are paid what would be equivalent to from three dollars to four dollars in United States money per month. Higher class labor such as carpenters, plumbers, etc. can be employed for the equivalent of thirty cents United States money per day, the number of hours of labor varying between ten and twelve. While such a scale of wages naturally seems to us to be criminal, nevertheless the usual standard of living is so low in China that the working people are very well pleased to get steady employment at these wages which apparently are sufficient to cover their accustomed requirements.

The supervision of labor is of the greatest importance for the working people will loaf on the job whenever it is in any way possible to do so. Con-

sequently it is necessary for American firms to send over able American superintendents and to also send over American foremen or else carefully train intelligent young Chinese to become foremen. Some American concerns have educated Chinese foremen in their American factories and have then sent them back to China and this plan has worked out very satisfactorily. It might be a good idea for American manufacturers who intend to enter this field to get in touch with some of the numerous young Chinese students who are attending American universities. Many of these young men could be interested in a plan under which they would go into American factories as soon as their education was completed and later on would become superintendents in China for these same concerns. These American educated Chinese make very intelligent and capable superintendents and managers and many of them have already succeeded in building up prosperous Chinese industrial undertakings of their own. The industrial development of China is just beginning and American manufacturers will make a great mistake if they overlook the manufacturing possibilities here.

Some people feel that the industrialization of China will bring forward the real Yellow Peril. They feel that the development of the raw materials and cheap labor of China will swamp the world with cheap products and they consequently urge that we do nothing to help Chinese industrial development. However these fears are not well grounded for the industrialization of China will bring prosperity. Prosperity will bring rising prices and rising wages and production costs will gradually tend to equal production costs in other countries. We used to hear that industrial development in Japan was going to injure industry in all other countries but industrial prosperity in Japan has resulted in rising costs and in some lines the Japanese are already complaining about the competition of Europe and America. The same tendency will surely develop in China as the years go by but in the meantime large profits will accrue to the American manufacturers who help to bring industrialization about and the development of a prosperous China will create new demands for the products of American factories and American labor.

American Chambers of Commerce

In the development of American foreign trade great assistance can be rendered by American Chambers of Commerce located in countries throughout the world and it is interesting to note that American Chambers of Commerce have been established in many important Chinese cities and plans are being made for holding a general meeting of representatives of all of the American Chambers of Commerce in China. These American Chambers of Commerce feel that they should have more support from the Chamber of Commerce of the United States. Our National Chamber has co-operated loyally in organizing an International Chamber of Commerce for the purpose of looking after the general business interests of all nations. Would it not be wise for our National Chamber to also organize a League of American Chambers of Commerce in Foreign Countries for the purpose of advancing our own American trade interests throughout the world?

Investments and Development Work

In a country like China the investment of money will result in development work being contracted for with citizens of the country from which the money comes. Americans should consequently be interested in possibilities for the investment of American capital in China. We naturally think of three

fields that we might enter, first, loans to governments or provinces for the development of railroads and natural resources and the construction of public improvements and utilities; second, investments in industrial undertakings; and third, investments in connection with the construction of office buildings, hotels, store buildings, private houses and the general rebuilding of the country.

Loans to the government and the provinces have been under consideration by the so-called Consortium made up of groups of bankers from the United States, Great Britain, France and Japan, the United States group consisting of a considerable number of our leading financial institutions. This Consortium has the support of the four interested governments and it was planned that it should handle such loans as have the guarantee of the central government of China or any of the provincial governments and which are to be offered for sale to the public. It was not contemplated to eliminate private enterprises or the activities of financial or industrial corporations. However the international situation in the Far East and the domestic political situation in China have interfered with the formulation of plans for loans by the Consortium. It is hoped that the Washington Conference may make possible some activities along this line.

Investments in the industrial development of China are being made by American concerns right along and it is desirable that many more of these investments be made in the various treaty ports. There is a broad field for this type of investment and as the years go by this field will become even greater. Americans should not overlook the opportunities for investment along this line at the present time.

Investments in connection with the rebuilding of China must await future developments although there is some field for activity in some of the treaty ports. After industrialism has developed somewhat further there will arise a demand for new buildings and construction and it will be time enough to consider the investment of money along this line when that time arrives.

Careful Study of Far East

The war led to the development of a very large capacity for production in America and it is going to be necessary for us to give very much more attention to foreign trade than ever before. Fortunately for us our large producing capacity is backed up by large financial resources and about the only thing we seem to lack is experience. It is consequently of great importance to our country for every business man to devote some time to study of foreign conditions and to travel in foreign countries. In this connection the principal nations of the Far East are surely among those countries that should have our most careful interest and consideration and it is to be hoped that the results of the Washington Conference will encourage Americans to take an important part in the future development of that part of the world.

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